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NORTH AMERICAN REVIEW

JULY, 1922

CANADA AND THE UNITED STATES

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WITHOUT delving into history or recalling ancient fiscal controversies between Canada and the United States, certain broad facts present themselves at once to the student of their trade relations present and possible. Between them stretches a long border line through nearly four thousand miles of coterminous territory whose nearby products are section for section quite similar.

Our Eastern provinces raise and market much the same products of the fisheries, forest and field as do the States from Maine to Michigan, with a surplus that varies with the seasons, but is on the average large.

Our Western Prairie provinces produce in the main the same commodities as do the States from Michigan to Washington, grains, live stock and hardy fruits, while British Columbia in addition pursues a large and varied increasing culture of fruits of the kinds grown in Washington State. This lays a foundation for a seasonal and geographical interchange between the two countries of growing dimensions. Further south the United States produces semi-tropical commodities, impossible of growth in Canada, which naturally seek the Canadian market in competition with other countries of like production.

As the population of both countries increases so will the productive capacity and the mutual requirements of consumption.

In the matter of coal the Dominion at present draws largely on United States resources for both anthracite and bituminous.

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The imports of coal into Canada from the United States last year amounted to \$112,000,000 in value, offset by an export thereto of the value of \$6,600,000, leaving a balance of \$105,400,000 against Canada.

But the tendency is towards diminution of coal imports. The water powers of the Dominion are being developed and are almost unlimited potentially. Under Government and private control systems the distribution of electrical energy is being rapidly extended and applied to manufacturing industries hitherto dependent upon coal. This tendency is equally noticeable as regards railway transport and future expansion in this direction will be extensive and fairly rapid. A Governmental experiment in briquetting the inferior grades of lignite in the West will, it is believed, result in making the Western provinces independent of the United States anthracite supply. Further development of the coal areas of Nova Scotia and British Columbia taken in connection with the above considerations opens up the possibility in the future of a complete or nearly complete domestic supply for the necessities of home, farm, factory, and land transport.

In fisheries Canada is easily self-supporting. Her Atlantic seaboard, her immense lakes, bays and rivers, insure her independence.

In forestry products both countries are still comparatively rich, though extravagant and wasteful methods plus fires have sadly depleted the almost boundless stores with which nature had blessed us. But the one hundred and ten million population of the United States with its yearly accretions make a tremendous call for wood and its products in various forms, notably for pulp and paper, which draws heavily upon home and Canadian sources, and the United States, therefore, is interested in procuring supplies from Canada as easily, as cheaply and for as long a time as possible. In 1921 the United States purchased from Canada wood and wood products and paper to the value of \$216,000,000.

When it comes to industrial activities Canada has obtained and does yet obtain from the United States vast quantities of raw material and partly and wholly manufactured products. For cotton she must go almost entirely to the Southern States. For wools and hides she relies in part on United States markets, as also for other materials necessary to the processes of completing industrial production.

But two things are to be considered. Cotton may before many years be very extensively raised outside the Southern States; wool and hides are produced largely in Africa and Australia, in South American States and in Canada itself. And all the while the increasing millions of the United States make greater demands on its home resources. The raw material market is as wide as the world and constantly changes. Again, the industrial development of Canada has made great progress in the last two decades. A tremendous stimulus as to variety, quantity and quality of production was imparted by the calls of the war, and the consciousness of power and the acquirement of skill and accuracy in work and nicety in finish gained thereby will greatly inure to persistence and extension along industrial lines.

Taking the statistics as a guide we find that while the output of the industries in Canada in 1881 was in round figures three hundred and ten million dollars, in 1921 it was three billion, eight hundred million dollars, and in excess of the total output of agriculture, forestry, fisheries and minerals combined by about one billion dollars. So that one would miss an essential fact if he conceived the idea that Canada was a country of activities centred wholly or chiefly in the exploitation of her great natural resources. She is the latter, decidedly, but she is also a country of great industrial development and capacity.

Consider also the status of Canada as a customer of the United States. Turning to statistics again they warrant a statement which will probably surprise many a reader in the United States.

U. S. Exports to and Imports from Canada

	1913		1920	
	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>
	\$	\$	\$	\$
Europe	1483 millions	865 millions	4400 millions	1225 millions
S. America	146	198	616	761
Asia	126	281	776	1283
Africa	29	24	165	150
France	150	139	662	166
Canada	388	142	933	612
U. K.	537	229	1652	436

Take the year 1913, before war disturbances had changed the normal courses of trade, and 1920, when they began to approach the

normal, and the foregoing table shows the situation. These figures are taken from United States returns.

In the normal peace year 1913 Canada stood next in total trade to the United Kingdom, and as a purchaser of United States products exceeded the whole of South America, Asia and Africa combined, by eighty-seven millions of dollars, and France by two hundred thirty-eight millions. In that year she took nearly one-sixth of the total exports of the United States.

In 1920, with all the changed conditions of the war, Canada still remains next to the United Kingdom in total trade, and as a customer of the United States overtops all of South America and Africa by one hundred fifty-two millions, France by two hundred seventy millions, and absorbs nearly one-eighth of the total exports of the United States.

We thus get an interesting, if not a surprising view, of the extent of the transactions between the two countries, absolutely as well as comparatively. Canada appears as the second best world customer of the United States with the balance in trade vastly in favor of the latter. During the ten years ending 1921, Canada paid in cash or kind \$5,522,000,000 to the producers of the United States, distributed to the furthest limits, east, west, south and north, or at the rate of \$70 a head of her population. In that period the consumers of the United States paid the producers of Canada \$2,905,000,000, at the rate of \$3 a head of her population. This left a balance in favor of the United States of \$2,617,000,000.

In 1878 the Canadian electorate after a prolonged and lively contest decided by a sweeping majority to adopt a protective policy and to apply the Customs duties in such a manner as would encourage the development of Canadian industries and maintain them against undue competition from abroad. The protection was never abnormally high, and has in the passing years and with the growth of our industries been gradually and materially lowered. In 1886 the *ad valorem* on dutiable imports was 22.8 per cent, in 1896 26.7 per cent, in 1906 27 per cent, in 1911 25.9 per cent, and in 1921 20.3 per cent.

But the significant fact is that whatever the Liberal party, which in 1878 opposed protection, may have advocated when in Opposition, no Government since 1878 has ventured to abolish protective duties

or abandon the principle and practice adopted in 1878. Nor do I think the present Liberal Government elected in December last will change it in any essential particular. For both national and economic reasons Canadians in a decided majority have hitherto held to the above policy and I believe will continue to do so. In every general election since 1878 this view has prevailed, and in no election more decisively than that of 1911, when the electorate was tested over the proposed partial reciprocity pact between the United States and Canada then submitted for its decision.

Another fact must be considered:

Canada has incorporated in her fiscal system the principle that within the Empire of which she forms a part preferential treatment is accorded to the other members of the Empire. Beginning in 1898 when a preference without return was granted to Great Britain and the West Indies on their imported products, the scope has been gradually widened until at present Canada gives a preference to the extent of from 25 to 50 per cent of the duty to all portions of the British Empire except Australia and Newfoundland, and receives preferential return treatment in Great Britain, South Africa, India, New Zealand, and the West Indies, in which category Australia will in all probability soon be included.

So that in coming to closer grips with the question of possible trade relations between the United States and Canada, we must accept as a basis the facts above mentioned.

These summarized are that, geographically and climatically, both countries along a wide range of contiguous territory produce similar commodities and generally in surplus quantities; that each country has the easiest and quickest recourse to very important sources of supply in the other; that both countries base their tariffs on the principle of protection and the practice of preferential treatment within the family; that both have strong aspirations towards national growth and development and thus combine national and economic considerations in the determination of their fiscal policy, and that, while freely acknowledging these fundamentals and being guided thereby, both peoples have the most cordial feelings of good will and friendship towards each other and a desire to do the largest amount of trade with each other possible under conditions as detailed above.

What then is possible?

First, that despite all tariffs there will be a large exchange of products between the two countries arising out of contiguity of territory along an international frontier of such great length. Short transport, sectional and seasonal conditions, comparative excellence of product, et cetera, will largely determine questions of purchase and sale, and increase of population and production will augment these exchanges. We may look, therefore, for a steady average increase in trade in this respect.

In the second place, we should be able to rely upon good business sense and experience in both countries to apply the balance wheel on behalf of the general interest as opposed to the considerations of party exigency and the teachings of doctrinaires, in moderating the demands for unreasonable tariffs for particular interests, and thus consistently with reasonable protection make a greater exchange of products possible.

Wise statesmen will always weigh the reflex effect of tariffs upon outside countries. If a tariff excludes staple products, natural or industrial, from reasonable entrance into the markets, it diminishes the capacity of the country thereby affected to continue purchases in these markets and thus tends to limit rather than extend trade.

Perhaps no better example could be given than the one close at hand. Figures given above show the extent of purchases made by Canada from the United States under the handicap of an adverse exchange running as high as 15 or 20 per cent. Still so long as Canada had reasonable access to the United States for her agricultural products she went on and met the balance against her as best she could. Now the demand comes from the United States farmers, the pledges of the Republican party during the Presidential campaign, and the to us unwelcome partial answer embodied in the Fordney Emergency Bill of May 28, 1921, and the possible completion of that answer in the proposed permanent Tariff Bill. This greatly diminishes and in part practically prohibits entrance into the United States market of Canadian products formerly exported to the value of \$170,000,000. The exports of Canada to the United States in Fordney Bill commodities in the four months in 1921, as compared with the four months in 1920, fell from thirty-three and a half million dollars to ten million dollars. As

goods purchased have to be paid for and the purchaser must sell his own products before he can venture to purchase, the result was sure and unavoidable. Canada bought by so much less in the United States and the United States producers lost so much trade. Is it certain that the class supposed to profit by the Emergency Tariff gained equally or at all by increased prices on their products?

Now we do not quarrel with the policy or its application in this particular instance. We have no right to do that nor any wish. I am only pointing out an unavoidable result. Canada, denied entrance into the United States, must seek other outlets. If old water courses are obstructed by dams preventing flow in one direction, the result is to hollow out channels in other directions to relieve the pressure. And that other direction for Canada must be largely to the British market. Years ago, because of alleged menace of disease in Canadian cattle, Great Britain placed an embargo on their import for breeding purposes and since then Canadian cattle entering British ports have to be immediately slaughtered. Though the menace was proved groundless the fiction has been kept up through the opposition of British cattle raisers. Now there is a decided set towards removing the embargo, and if this is done Canada's surplus live stock will be absorbed in Great Britain, and in addition a valuable increase will be made to our shipping cargo eastward. If the embargo is retained, then Canada must turn its attention to the preparation of refrigerated meats and build up a trade in them with Great Britain. In either case the course of a great product will be diverted from the United States, and once diverted will scarcely again return. And with that diversion goes the equivalent imports by Canada which will be transferred from the United States to Great Britain or elsewhere.

It is to be noted that the Canadian tariff on the classes of agricultural products included in the Fordney Bill is considerably lower than the rates imposed by the latter, so that in no sense was the Canadian tariff provocative of the almost prohibitive rates of the Fordney Act.

Both countries should keep in mind the necessity and advantage of reasonable fiscal legislation in the general interests. Neither doctrinaire on the one hand nor class on the other should have undue

influence in closing up these national gateways of commerce. Sectional and seasonal differences in need and supply should not be overlooked, and vision may well be invoked in the establishment of every national policy. The doctrinaire, be he protectionist or free trader, will always magnify his panacea, the class claimant his own particular contribution to the essential well-being of the State, and party politics will stand careful scrutiny as to how far its vote-getting enthusiasms dominate its desire for the general good.

And though tariffs are made for the present, it should not be forgotten that they vitally affect the future in many ways. They hollow out channels of trade for the nation which, once set, tend to deepen and widen and render changes difficult, and when they do come more or less disastrous. But it must be remembered that they also tend to set channels of trade for the other nations affected—counter channels which debouch in other countries, and these when once set are difficult and sometimes impossible to change.

There is a general business sense that may be adversely affected and which will manifest itself in redressing its disadvantages by turning in other directions, and which once turned is with difficulty brought back to former trade connections. And there is a national sense that, answering to and reinforcing this business sense, may be widely awakened to the desirability of cultivating better relations elsewhere, of relaxing any efforts to reopen the barred channels, and possibly of following a quoted example in rearranging its own tariff on the model furnished.

And our cousins in the United States must not forget that what affects trade and sentiment with a people to their north now numbering nine millions will still more affect them when they become twenty millions and thereafter fifty millions and ultimately a hundred millions and more. Trade which assumes an importance of millions of dollars to-day may have a possibility of billions in the future, but such possibility may be imperilled by the feeling engendered by present preventive legislation.

My conclusions are that at present there are few, if any, chances for a reciprocity arrangement between the two countries, but that despite even present and possible near future United States tariffs, there will still be a large and profitable exchange of commodities. The Fordney Bill and its successor, if it issues fully clothed as now

foreshadowed, will largely diminish these exchanges, and possible consequent changes in the Canadian tariff, rendered necessary by these enactments, may tend still further to diminish the aggregate trade. There are wide possibilities in the list of articles now purchased from the United States that Canada can do without or get from other countries, and there is cause for reflection as to what might happen for instance if access by foreign countries to Canadian sources of wood and wood products were limited. What Canada loses on exchanges with United States she will recoup in added trade within the Empire and in foreign markets, other than the United States—for neither the progressive spirit of her people nor her immense resources for development will permit any diminution of her continuing expansion.

GEORGE E. FOSTER.